National
Foreign
Assessment
Center

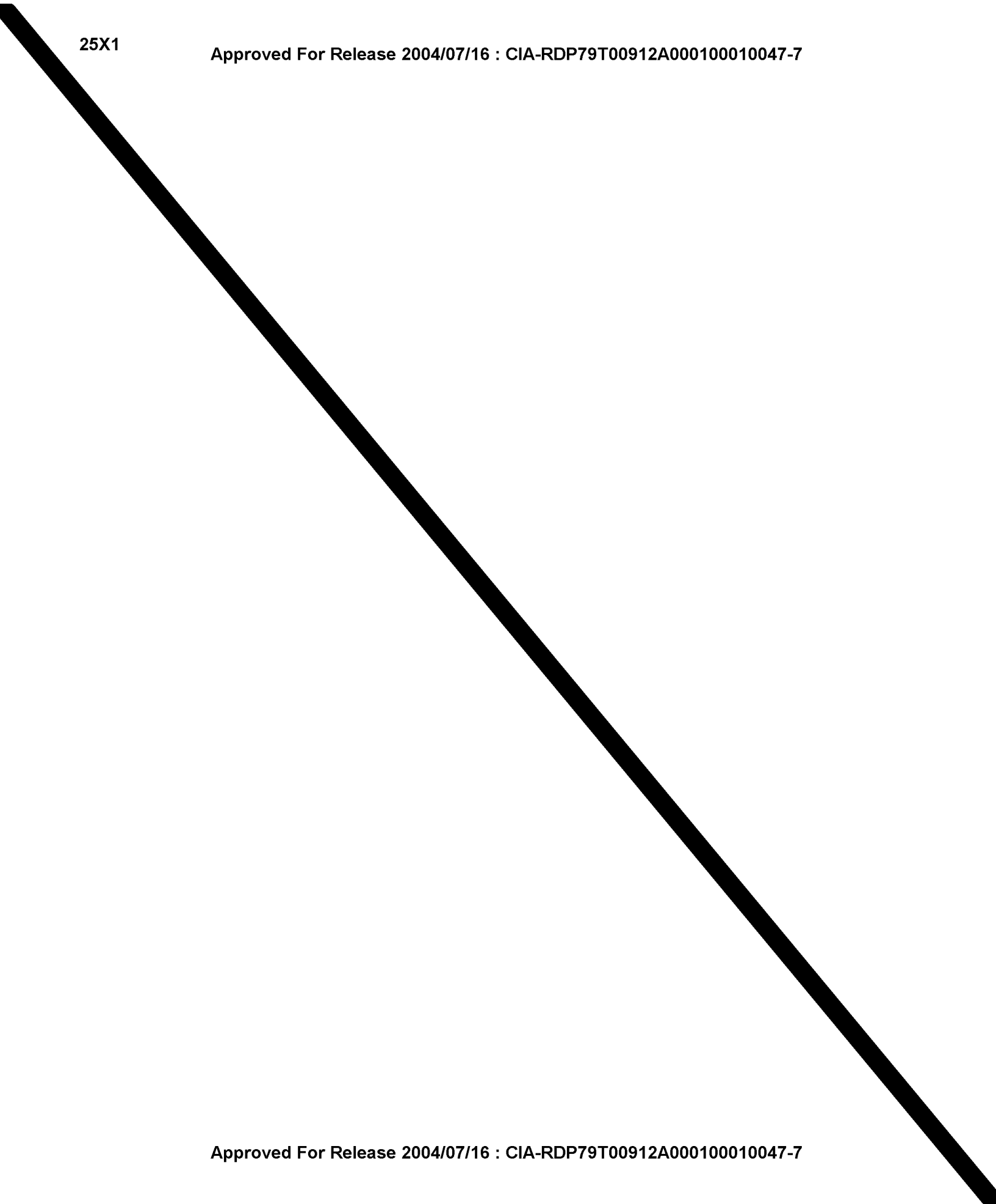
Secret

USSR
Weekly Review

Supplement
19 October 1977

Secret

RP ASU 77-030C



Approved For Release 2004/07/16 : CIA-RDP79T00912A000100010047-7

USSR WEEKLY REVIEW

SUPPLEMENT
19 October 1977

CONTENTS

Note: As a result of a reorganization, effective 11 October 1977, intelligence publications formerly issued by the Directorate of Intelligence and by the National Intelligence Officers are now being issued by the National Foreign Assessment Center. Publication covers and titles have been adjusted to reflect this change. This publication was formerly titled *The USSR Regional and Political Analysis.*

25X1

Approved For Release 2004/07/16 : CIA-RDP79T00912A000100010047-7

25X1

25X1

Scrap Shortages Add to Steel Industry Woes

Widespread shortages of scrap are hampering production in the already problem-plagued steel industry and are causing concern among Central Committee members, The shortages could affect not only electric furnaces, which operate almost exclusively on scrap, but also open hearth furnaces, which are still the mainstay of the industry, accounting for close to two-thirds of Soviet steel production. Open hearth furnaces operate flexibly on both scrap and pig iron, depending on the availability of each, but supplies of pig iron currently are not adequate to make up for a serious scrap shortage.

Scrap shortages are not new, but the current ones come at a particularly inopportune time. Steel production through the first eight months of 1977 has stagnated at the same level as 1976, a year in which steel output increased by the smallest amount since 1957. The slowdown provides little hope that the Soviets will soon be able to get out from under the burdensome hard currency payments of more than $2 billion incurred during each of the past two years for imports of steel.

The slowdown is mainly due to inadequate investment in recent years in basic steelmaking capacity and facilities to improve the assortment and quality of steel products. Earlier, such shortfalls were often made up by squeezing extra output from existing facilities. That margin is largely used up. In addition, ore supplies are tight. A steady decline in the quality of Soviet ore has siphoned off an important share of available investment funds for construction of proportionately larger amounts of raw ore-mining capacity and facilities to upgrade the ore.

Although periodically short of scrap, the USSR has been an exporter of this vital steelmaking ingredient for many years. In 1976 exports of scrap amounted to

25X1

25X1

1.8 million tons of which about half went to hard currency countries, yielding $69 million in exchange earnings. A cutback in exports of scrap may be necessary if the shortages persist. At present, however, other stringent measures are being taken to deal with the shortages.

[redacted] 25X1

The malaise in steel production could be a harbinger of even more difficulties ahead since steel is generally a leading indicator of economic performance. Difficulties encountered in that branch have a ripple effect on other sectors of the economy. Two sectors in particular--machinery production and construction activity, the driving forces of the Soviet investment program--appear highly vulnerable to the stagnation in steel output.

25X1 [redacted]

RP ASU 77-030C

[redacted] 25X1

19 October 1977

25X1

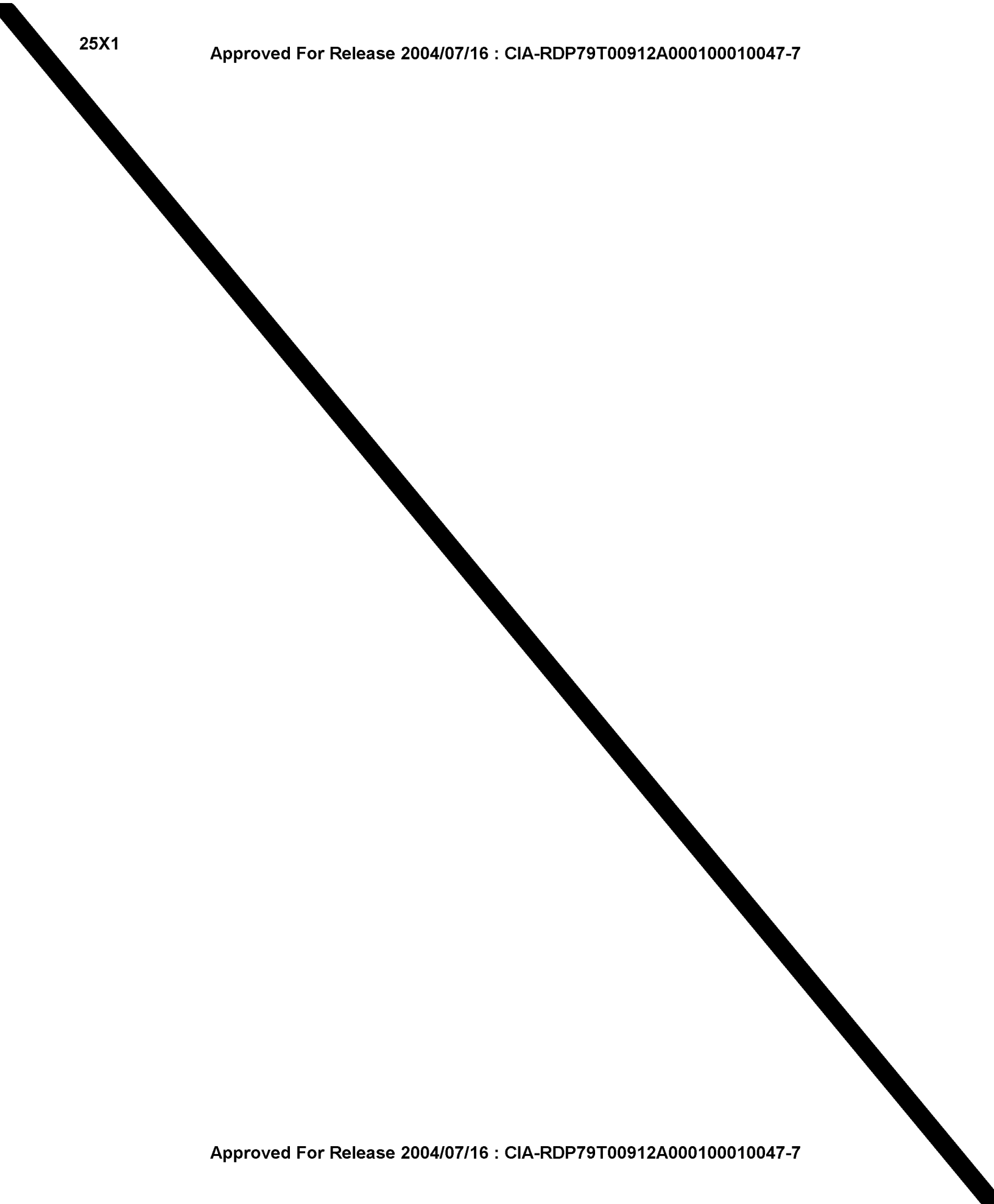
30 A

National Foreign Assessment Center

HR

USSR
Weekly Review

19 October 1977



Approved For Release 2004/07/16 : CIA-RDP79T00912A000100010047-7

USSR WEEKLY REVIEW

19 October 1977

CONTENTS

25X1

Note: As a result of a reorganization, effective 11 October 1977, intelligence publications formerly issued by the Directorate of Intelligence and by the National Intelligence Officers are now being issued by the National Foreign Assessment Center. Publication covers and titles have been adjusted to reflect this change. This publication was formerly titled *The USSR Regional and Political Analysis.*

25X1

RP ASU 77-030
19 October 1977

25X1A

A Status Report on Soviet-Japanese Relations

The Soviet Union is continuing efforts, begun early last summer, to repair the damage done to its relations with Japan by the MIG-25 incident and the protracted fishing negotiations. The Soviets would like to counterbalance Japan's present tilt toward China and reduce Peking's opportunities to capitalize on Japanese differences with the Soviet Union. Moscow's current concern is Chinese lobbying for an early signing of the Sino-Japanese peace and friendship treaty.

The Soviets have moderated the stridently anti-Japanese tone of the Soviet press, and Soviet spokesmen are now trying to put relations in the best possible light, mainly by stressing the mutual benefits of economic cooperation. To date Moscow has not made any major moves toward rapprochement, but some officials have again raised the issue of peace treaty talks. Both sides remain deadlocked, however, over the major impediment to the resumption of peace treaty negotiations--the northern territories. During a conversation held last week at the UN between the Soviet and Japanese Foreign Ministers, both sides repeated their incompatible positions on the return of the four islands to Tokyo. As a possible compromise, Premier Kosygin recently reiterated a Soviet proposal for a "good neighbor" treaty as an interim step toward full normalization of relations.

The Soviets are concerned by the current Japanese tilt toward China and accompanying pro-Chinese sentiment that has some popularity in Japan. Anti-Soviet attitudes generated by Moscow's heavyhandedness over the MIG incident and during the fishing talks have further complicated the situation.

Moscow sees these two attitudes as interrelated, and to some extent they are. A Japanese diplomat in Moscow recently observed, for example, that the Chinese have a much superior understanding of the Japanese Government and society than the Soviets and are thus better able to stoke anti-Soviet sentiments.

RP ASU 77-030
19 October 1977

Meanwhile, however, the Soviets have begun to combine the carrot with the stick in their approach to the Japanese. Using various channels, including diplomatic and academic contacts and the press, Moscow is trying to convince the Japanese that their long-term interests will be better served by economic cooperation and good relations with the USSR than by improved relations with China.

25X1

25X1

A leading Soviet commentator on Japanese affairs, I. Latyshev, has used his columns in *Pravda* to promote the same idea and to appeal to Japanese business circles to lobby against anti-Soviet attitudes among Japanese policymakers. Latyshev has cited the Japanese Government's "constructive" attitude toward the interim fishing agreements, the five-year extension of a trade and payments agreement, and the meetings of the Japanese-Soviet Economic Committee--the first in three years--as evidence that the will for better relations exists, despite the fact that the fishing talks were marred by considerable difficulties and the Economic Committee meetings failed to produce any major new agreements.

In fact, the better-relations-through-more-business-cooperation theme does not have much appeal for Tokyo. Soviet-Japanese trade is more important for the USSR than Japan, and the Japanese have displayed little interest in a Soviet-proposed long-term economic pact. They have, however, agreed in principle to a long-term trade agreement with China.

Although the Soviets have not made any major moves toward rapprochement, there have been hints that they

would be willing to try again to negotiate a peace treaty, but only on their terms. On the eve of the academic symposium, academician Inozemtsev, a key participant in the symposium's proceedings who occasionally acts as a spokesman for the Soviet leadership, said in a TASS interview that all the necessary preconditions exist for peace treaty talks, but, if this were impossible because of Japanese intransigence, a "good neighbor and cooperation" treaty could be initiated while discussions of the peace agreement continued. According to a Japanese press [redacted], Premier Kosygin underscored Inozemtsev's remarks during a reception for the visiting Japanese scholars held in the Kremlin Palace.

25X1

The concept of a good neighbor treaty as a means of circumventing the contentious northern territories problem was broached several years ago when both sides had reached an impasse over the peace treaty talks. While the Japanese have indicated that they are interested in beginning peace treaty negotiations, they remain adamant that such talks be contingent upon a return of the four islands at the southern tip of the Kuriles. For their part, the Soviets continue to assert that this is not even open to discussion. During the recent conversation held at the UN, Soviet Foreign Minister Gromyko and Japanese Foreign Minister Hatoyama each repeated his respective government's longstanding position and thus failed to break the deadlock on the issue.

At present, the Soviets really have little to offer the Japanese on either the economic or the diplomatic front as an incentive to improve relations. Tokyo has pressed Moscow repeatedly for a visit by its Foreign Minister to the Soviet capital, but the Soviets have continued to delay. This visit will not occur before the beginning of 1978 at the earliest. The Soviet tactic seems to be to hold out the hint of some improvement while not offering any real compromises, perhaps with the objective of gradually steering Japan away from China.

At the same time, the Soviet press continues to attack Tokyo's search for a broader regional political and economic role and to raise the specter of resurgent militarism in Tokyo aided and abetted by Washington. The private comments of Soviet foreign policy experts suggest, however, that Moscow's real assessment may be more

subtle and at variance with the current propaganda line. According to Vladimir Lukin, chief of the Pacific Ocean Area Section at the Institute of the USA and Canada, Japan has indeed moved away from its previously close coordination with American policy and toward a more independent, albeit limited, regional role, but Washington still exercises a degree of "control" over Japanese policy, and Moscow welcomes this. Lukin was in effect encouraging a continuation of US policy toward Japan.

25X1

RP ASU 77-030
19 October 1977

25X1

More Bad News for the Soviet Consumer

The price of Soviet passenger vehicles will increase next January, according to rumors circulating in Moscow. Prices of new model cars are already higher than most consumers can afford. Although the average monthly wage has increased about 13 percent since 1972 to 150 rubles per month, the price of new model cars has increased even faster. The price of the four-door, five-passenger Moskvitch was raised from 4,750 rubles in 1975 to 6,100 rubles in 1976, an increase of about 22 percent. The authorities claimed the increase was necessary because of the addition of disc brakes, an improved electrical system, new wheels and shock absorbers, a changed interior, and cosmetic body changes.

The average Soviet family with two incomes requires 20 months of earnings to purchase the Moskvitch or the lowest priced model of the popular Zhiguli (exported as Lada), which sells for 6,030 rubles. The purchase of a moderately priced car in the US requires about eight months of earnings of one average US wage earner.

Based on recent purchasing trends, the Soviet consumer will not be deterred from seeking or purchasing a car. Between 1971 and 1975, Soviet consumer purchases of passenger vehicles increased 90 percent. In 1976, the Soviet consumer purchased 82 percent of all Soviet cars produced in that year.

25X1

[redacted] 25X1

Labor Problems at Kama

Labor problems are increasing at the Kama River Truck Plant, and if they are not resolved, they could add to the transportation bottlenecks that are expected in the early 1980s.

Soviet production workers are quitting before the expiration of their two-year contracts, mainly because the 40 rubles per month that had been added to monthly earnings because of the priority assigned to the construction of the Kama plant was canceled without warning in July 1977. This bonus raised the level of real earnings for an average worker at Kama to 220 rubles per month compared with an average wage of about 150 rubles per month nationwide.

In addition, workers have become disillusioned with the poor food, particularly when they can see that much better food is available to on-site foreign personnel. Kama also is in an isolated area and there is a pervasive lack of other consumer goods.

Finally, the presence of convict labor has also created an unsettling effect on Kama workers. Convicts are being used increasingly to fill the gaps in the construction force and have been involved in disorderly conduct, muggings of foreign technicians, and other civil disorders.

As the more skilled workers have quit, they have been replaced by less competent laborers, resulting in damage--in some cases beyond repair--to imported production machinery. Kama began production in 1976, two years late. Labor problems, if they continue, could set back the date for capacity production beyond the scheduled date of 1981. The Soviet economy, meanwhile, is desperately in need of the large size trucks Kama is designed to produce. [redacted] 25X1

25X1 [redacted]

RP ASU 77-030
19 October 1977